



# **JULIE LASSA**

## **STATE SENATOR**

**Assembly Bill 184 Testimony**  
**OPEB**  
**Senate Committee on Labor, Elections and Urban Affairs**  
**November 28<sup>th</sup>, 2007**  
**10:15am.**  
**411 South**

Chairman Coggs and Committee Members,

Thank you for the opportunity to provide testimony today on Assembly Bill 184.

Representative Gottlieb and I have worked together on this legislation which passed the Assembly on October 24<sup>th</sup>.

Assembly Bill 184 allows all Wisconsin municipalities the ability to create trusts to pay down "other post-employment benefit" liabilities just as school districts are currently allowed to do.

OPEBs are unfunded liabilities held by state and local governmental units because of contractual promises made to public employees...such as health care coverage after retirement. OPEB trusts are a great tool for governmental units to use to plan for retirees health care benefits at a time when health care costs have risen dramatically...up to three times the amount of inflation since 1999.

AB 184 allows all local units of government to establish trusts and invest using the guidelines set forth in the Uniform Prudent Investor Act developed by the Uniform Law Commission. The Act provides rules for governing investments that protect the trust's assets. The bill allows all municipalities in Wisconsin to establish OPEB trusts – separate legal entities from the municipality - to use when their OPEB liabilities become due.

In 2004, the Governmental Accounting Standards Board (GASB) issued a statement to state and local governments to report plans for funding retiree health care over the next 30 years as reflected in an established and defined plan. For Wisconsin governmental units, we will need to report under GASB 45 beginning in fiscal year 2008. The improved reporting will result in more accurate data on the total costs of the benefits as well as provide a better foundation for potential methods of financing these benefits. The GASB statement encourages all units of government who provide OPEB benefits to better plan for their management over a 30 year period. Assembly Bill 184 simply gives local governments a tool to pay off OPEB liabilities.

Thank you for your time and consideration of this issue. I would be happy to answer any questions that you may have.



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## MEMORANDUM

TO: Honorable Members of the Senate Committee on Labor, Elections and Urban Affairs

FROM: Monica Groves Batiza, Legislative Associate *MSB*

DATE: November 26, 2007

SUBJECT: Support for Assembly Bill 184

The Wisconsin Counties Association (WCA) supports Assembly Bill 184 (AB 184), relating to the investment by certain local units of government of funds held in trust to provide post-employment benefits, as amended. AB 184 is an extension of 2005 Act 99, which allowed school districts to create trusts to invest funds to help pay for the increasing costs of other post-employment benefits (OPEB). This legislation would simply expand current law by enabling other local units of government to expand their investing opportunities. Money earned through these investments would help pay OPEB costs, which include health care and life insurance, and allow Wisconsin counties to be on equal footing with school districts.

Our support for AB 184 stems from a resolution that the WCA Board of Directors passed in February, 2007 to support legislation to allow counties more flexibility to invest for post-employment benefits.

Thank you for considering our comments. Please contact me if you have any questions.



# MARK GOTTLIEB

Speaker Pro Tempore  
Wisconsin State Assembly

**Testimony of Rep. Mark Gottlieb  
Assembly Bill 184  
Senate Committee on Labor, Elections and Urban Affairs  
November 28, 2007**

Chairman Coggs and Committee Members:

Thank you for the opportunity to speak before you on Assembly Bill 184 (AB 184), relating to the investment by certain local units of government of funds held in trust to provide post-employment benefits.

Last session the Legislature passed, and the Governor signed into law, Assembly Bill 167 (WI Act 99) allowing school districts to create trusts to invest and reinvest funds to help pay for the increasing costs of other post-employment benefits, otherwise called OPEBs. OPEBs include, but are not limited to, retiree health care benefits and life insurance. Previous to the enactment of Act 99, the Milwaukee Public School District was the only entity authorized to hold funds in trust to pay for other post-employment benefits.

Much like WI Act 99, AB 184 will allow all local units of government to create a trust to invest and reinvest funds to expand their investment opportunities to help pay OPEB costs – using the guidelines established in the Uniform Prudent Investor Act. The Uniform Prudent Investor Act, developed by the Uniform Law Commission in 1914, and which took effect in Wisconsin on April 30, 2004, provides rules for governing investments that result in protection for trust assets while providing the prospect for increased income. AB 184 puts other Wisconsin governmental entities on an equal footing with school districts.

OPEBs are unfunded liabilities held by state and local governmental units because of contractual promises made to public employees. The most significant OPEB facing these governments is health care – even more so than unfunded pension liabilities. Most governments provide some form of health-related benefits, but very few actually prefund the benefits.

In December of 2006, the General Accounting Standards Board (GASB) issued Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. For the first time, by 2008, state and municipal governments will be required to account for other post-employment benefits and pensions. The new GASB statement “was issued to provide more complete, reliable, and

**STATE REPRESENTATIVE • 60<sup>TH</sup> DISTRICT**

decision-useful financial reporting regarding the costs and financial obligations that governments incur when they provide postemployment benefits other than pensions (OPEB) as part of the compensation for services rendered by their employees.”

Prior to GASB 45 governments typically followed pay-as-you-go accounting principles which meant that OPEB costs weren't calculated until after employees retired. Now, governments will be forced to apply GASB 45 accounting principles to report “annual OPEB cost and their unfunded actuarial accrued liabilities for services rendered”. In essence, the new regulations will improve transparency in government accounts by making it easier to know what the future liability for OPEB expenses will be for a given government and to assess whether they have a strategy for meeting these requirements.

Unlike other states and local governments, the State of Wisconsin took action against its unfunded accrued pension and OPEB liabilities by issuing \$1.3 billion in bonds in the 2003 state budget. While the refinancing of our liabilities will eventually cost taxpayers about \$3.6 billion to retire the bonds, it saved \$324 million in the long term. The impact on taxpayers is not insignificant by any means, but this gives you a glimpse of what we are facing when all local governments are forced to open their books and fully account for what they owe in unfunded liabilities. An article written in the Wisconsin Policy Research Institute Report by former Secretary of Administration George Lightbourn suggest that over a twenty-year period unfunded pension liabilities for local governments will cost taxpayers over \$5.5 billion and unfunded healthcare liabilities for local governments outside of Milwaukee could total \$5 billion. Mr. Lightbourn estimates that to eliminate unfunded pension and retiree health care liabilities will cost all state and local governments approximately \$17.4 billion.

This bill does not fix the potential unfunded liability crisis for local governments. However, it does give local governments a tool to assist them in raising the necessary funds to pay off their OPEB liabilities.

Assembly Bill 184 passed the Assembly, as amended, on a 91-5 vote.

Thank you for the opportunity to testify before you today.



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To: Senate Committee on Labor, Elections and Urban Affairs  
From: Curt Witynski, Assistant Director, League of Wisconsin Municipalities  
Date: November 28, 2007  
Re: AB 184, Expanding Municipal Investment Options for Funds Held in Trust for Post Employment Benefits

The League of Wisconsin Municipalities supports AB 184, enabling municipalities the option of using trusts and investment vehicles allowed under the Uniform Prudent Investors Act to reduce the costs of providing for their post-employment benefit obligations. The bill extends to municipalities the same legal authorization provided to school districts last session by Act 99. AB 184 passed the Assembly in October by a vote of 91-5.

Some municipalities in Wisconsin have the same long term needs related to post-employment health insurance obligations as school districts, but are currently restricted to investments in vehicles that are of a shorter duration and have a lower potential long term rate of return.

Municipalities that choose to fund their post-employment benefit obligations will find their annual costs 25% to 40% higher if this legislation is not in place, with corresponding additional pressure on property tax levies.

We urge you to recommend passage of AB 184 and allow local governments the option to provide for their post-employment benefit obligations by establishing trusts and investing assets contributed to such trusts under the Uniform Prudent Investors Act.

Thanks for considering our comments.

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## State of Wisconsin Department of Public Instruction

Elizabeth Burmaster, State Superintendent

November 26, 2007

The Honorable Spencer Coggs, Chair  
Senate Committee on Labor, Elections and Urban Affairs  
State Capitol  
PO Box 7882  
Madison, WI 53707-7882

Dear Senator Coggs:

Adam Plotkin from your office recently called requesting the department's position on 2007 Assembly Bill 184 (AB 184), which is before your committee. The department had a concern with the bill, but that concern was addressed in the Assembly under Assembly Amendment 1, offered by Rep. Gottlieb and adopted by the Assembly. As a result, the department is now taking no position on the bill as amended.

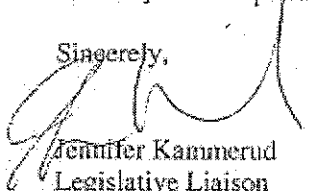
The original concern the department had with AB 184 was outlined in the fiscal estimate the department completed for 2007 Senate Bill 93 (SB 93), the companion bill to AB 184. It should be noted that the department did not do a fiscal estimate for AB 184 as none was requested from us by the Department of Administration. The language from the SB 93 fiscal estimate is excerpted below.

"The department currently requires school districts to establish a formal, separate legal trust for the investment of post-employment benefits. Transactions related to this trust fund must be accounted for in district finances in a separate accounting fund called Fund 73...."

"...If, under this bill, a district is allowed to hold funds in a separate district account rather than a separate legal entity, the aidable expenditure may revert back to dollars paid to current retirees and raise the potential of aiding the expenditure a second time. Thus, until the meaning of the bill's text that funds for post-employment benefits "...shall be held in a trust fund or account that is separate from all other trust funds or accounts created by, or under the control of, the local governmental unit" is reconciled with current department practice, there may be an indeterminate fiscal effect."

Assembly Amendment 1 to AB 184 removed the "or account" language from the bill and thus removed our concern with the bill by clarifying that the dollars should only be kept in a separate legal entity and thus removing the possibility of aiding the expenditure twice. Please feel free to contact me should you have any further questions.

Sincerely,



Jennifer Kammerud  
Legislative Liaison

Cc: Representative Mark Gottlieb and Senator Julie Lassa